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SUBJECT: NIGERIA: GON STRATEGY FOR THE U.S. BILATERAL PARIS AGREEMENT

REF: ABUJA 1194

1. Summary: Director General of the Debt Management Office (DMO) Akin Arikawe April 8 explained that Nigeria no longer wanted to sign its bilateral Paris Club agreement with the USG until negotiations (with more favorable terms for Nigeria) were completed with the UK and Japan. Arikawe stressed the logic of the GON's delaying tactics for Paris Club Agreements, and repeated his interest in exploring debt-for-nature swaps with the USG. End Summary.

THE WAITING GAME

2. Econ Officer April 8 called on DMO's Director General Akin Arikawe to discuss the April 5 Supreme Court Decision on Resource Allocation (reported reftel). Arikawe produced a copy of a March 19, 2002 letter to Mrs. F. M. Yemidale, Secretary of the Nigerian Debt Conversion Committee, from

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Michael Kaplan of the Treasury Department's Office of International Debt Policy. Kaplan wrote, "there are some outstanding issues that hinder our efforts to move forward on the debt swap. U.S. and Nigeria have not yet signed the bilateral agreement implementing the terms of the 2000 Paris Club rescheduling for Nigeria. In addition, Nigeria has accumulated payments arrears to the U.S. Government."

3. Arikawe saw the letter as a terse brush off, and that Nigeria -- for ecological as well as political reasons -- wanted to pursue environmental debt swaps. EconOff reminded Arikawe that Ambassador Jeter had already raised with him (as well as the Minister of Finance and the Vice President) USG concerns about delays with the bilateral agreement. If Nigeria's real goals were debt rescheduling and eventually a significant debt write off, current dilatory tactics holding out for the most optimal term was costing the Nigerian government money and the opportunity for progress on a number of fronts including debt swaps.

4. The DMO DG claimed satisfaction with the USG terms on the bilateral debt agreement, but did not want to complete the agreement until Nigeria had reached better terms with the U.K. and Japan on these debts. If the U.S. agreement were filed in Paris now, the Europeans would insist on similar terms. He noted the size of Nigerian debt to the USG was relatively small, about a seventh the size of the UK's and only half the amount owed to the Dutch, one of the smaller European donors. He insisted terms of the agreement with the U.S. should not be the ruler by which the other agreements are measured.

5. Arikawe felt the UK and Japanese agreements should come soon. With the Japanese and UK on board in the near future, and the German agreement already in the final stages, more than 60% of the debt would have been negotiated. At that point, Nigeria would look to finishing the U.S. bilateral.

GON STILL WANTS DEBT FOR NATURE SWAP

6. Nigeria was still very interested in a debt for nature swap; Arikawe repeated his assertion that securing a private-sector third party would not be a problem. He asked that we contact Michael Kaplan and see if he could arrange meetings at Treasury for Mrs. Yemidale on the margins of this year's IMF/World Bank spring meetings. She wanted to begin work on a Nigerian plan to be ready when, "in the near

future," Nigeria returns to normal relations with the Paris Club and the IMF.

JAPANESE AND UK PERSPECTIVES

17. The Japanese Embassy informs us that an agreement on Overseas Development Assistance (ODA) debt is ready to sign, and they are preparing an Exchange of Notes to split that agreement from Japanese commercial debt. This would allow for a formal signing on ODA debt while the two sides continue to negotiate a mutually acceptable interest rate for the commercial loans.

18. A British High Commission Economics Officer reports progress in negotiating interest rates and grace periods. The remaining sticking point is Nigerian insistence on applying payments to principal before interest. Arikawe told UK negotiators that the GON would make payments only to those countries with which it had signed bilateral agreements. Were Nigeria to honor its debt payments in full, the UK would receive \$550 million this year. This obviously is not going to happen, but the UK is inclined to "cut their losses and move forward" with an agreement that brings in something.

COMMENT

19. In the wake of our insistence on adhering to the standard terms of the bilateral agreement, the Nigerians evidently have done a negotiation volte-face. Previously, Arikawe had execution of the U.S. agreement at the head of the list, now it is the tail.

WHEN MIGHT THE U.S. BILATERAL BE READY?

110. The international donor community and IFIs are convenient targets for venting nationalistic spleen, and President Obasanjo has recently taken a few rhetorical shots at the IMF in the local and international press. At the same time, one of candidate Obasanjo's selling points in 1999 was his stature with the international community. He may want to package these mostly technical agreements as diplomatic accomplishments in the build up to the election.

111. Even if the Administration wants to accelerate the process, it may not go as fast as they want. On Christmas Eve Arikawe held a press conference announcing signings with three countries: Germany, Austria and Switzerland. Today, two of those countries have still not signed. Added to this is the DMO's new task of assigning external debt to individual states (reported septel). Assuming Arikawe is sincere that the GON will stop stalling as a tactic (which is uncertain -- and certainly not within his control), his shop may still lack the capacity to conclude agreements as quickly as he may hope.

Andrews